

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust [*]	-1.5	0.3	0.2	10.4	4.5	11.0	7.2
S&P/ASX 300 Accumulation Index	0.7	1.0	0.8	9.5	5.2	10.4	6.1
Value Added (Detracted)	-2.2	-0.7	-0.6	0.9	-0.7	0.6	1.1
Capital Growth	-1.5	-3.2	0.0	1.7	-3.7	3.6	0.5
Income Distribution	0.0	3.3	0.0	7.9	7.3	6.5	5.8
Net Performance^{^^}	-1.5	0.1	0.0	9.6	3.6	10.1	6.3

^{*}Gross Performance. [^]Since inception: December 2005. ^{^^}This refers to the Trust's gross performance net of investment management fees. Past performance is not a reliable indicator of future performance.

Perennial Value Shares for Income Trust

The Trust aims to provide investors with an attractive level of tax effective income, paid via quarterly distributions. The Trust aims to provide a dividend yield, adjusted for applicable franking credits and before fees, above that provided by the S&P/ASX 300 Accumulation Index^{*}.

Portfolio manager

Stephen Bruce

Risk profile

High

Trust FUM

AUD \$35 million

Distribution frequency

Quarterly

Team FUM

AUD \$6.7 billion

Minimum initial investment

\$25,000

Trust inception date

December 2005

APIR code

IOF0078AU

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[#]Gross dividend yield.

- ▶ Over the twelve months to August 2017, Perennial Value Shares for Income Trust (the Trust) has delivered a pre-tax distribution yield (i.e. including franking credits) of 10.2%.
- ▶ Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.8% per annum.
- ▶ In addition to the strong distribution yield, the Trust has delivered a solid total return of up 10.4% for the last twelve months.

Market Review

Global markets were mixed in August, with the S&P500 up 0.1%, FTSE100 up 0.8% and Shanghai Composite up 2.7%, while the Nikkei 225 declined 1.4%. Commodity price strength continued, with iron ore up 7.0%, thermal coal up 2.0%, coking coal up 16.0%, gold up 4.0% and copper up 7.0%, while oil declined slightly down 1.0%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar finished the month flat at 80 US cents.

The ASX300 Accumulation Index (the Index) was up 0.7% for the month, led by resources, with metals & mining (up 5.5%) and energy (up 5.2%) the best performers. Other positive sectors included consumer staples (up 5.2%), industrials (up 4.6%), materials (up 4.5%) and utilities (up 3.2%). Telecommunications (down 7.2%) was the worst performing sector, as Telstra cut its dividend, followed by financials (down 2.1%), with the major banks weaker and consumer discretionary (down 1.5%).

Trust Review

The Trust delivered a solid total return for the last twelve months of 10.4%, which compares favourably to the Index return of 9.5%. The Trust fell 1.5% for August.

The highlight of the month was the reporting season, which saw companies report their results for the 2017 financial year. Overall the results were sound, with a key feature being very strong profit growth from the resources sector on the back of higher commodity prices and good cost control. The CBA result, as well as trading updates from the other major banks, showed modest growth, with their low debt charges highlighting the ongoing benign economic environment. The performance of the industrials was mixed, with many strong results but also some notable disappointments, in particular from some of the more growth-oriented companies such as Domino's Pizza (down 18.2%), Healthscope (down 16.3%), James Hardie (down 7.7%) and Ramsay Healthcare (down 3.2%). These stocks have not been held in the Trust on the basis of overvaluation and low dividend yield.

While the outlook statements continued to be generally subdued, we were pleased to note that overall, there was a rise in capital expenditure (CAPEX) intentions, with many companies planning to lift the amount they reinvest into their businesses. In recent years, companies have returned an increasing proportion of earnings to shareholders in the form of higher dividends or buybacks. While dividends are very important (particularly to this fund) we believe that it is equally important for companies to continue to undertake measured investment to drive growth and defend their market positions. The earnings growth that this reinvestment drives is what underpins the long-term growth in dividends that the market provides. Further, increased CAPEX by business has a positive benefit across the broader economy.

The better performing stocks in the Trust included resource holdings BHP (up 5.9%) and Rio Tinto (up 5.2%), which both delivered dramatically higher profits, allowing them to increase their dividends by up 177.0% and up 144.0% respectively. Their strong cash flow generation is seeing these companies rapidly de-gear their balance sheets and this is expected to lead to increasing returns to shareholders in the coming periods.

Caltex (up 7.2%) delivered a solid result and lifted the dividend up 20.0%. The company announced a further cost-out program and, importantly, has largely filled the expected earnings hole from the loss of the Woolworths contract. Longer-term, this company has a significant opportunity to grow earnings by developing the convenience retail offering at their extensive network of service stations. Wesfarmers (up 7.6%) delivered a sound result and also lifted its dividend by 20.0%. Other strong performers included Platinum Asset Management (up 11.7%) Iluka Resources (up 5.7%), Janus Henderson (up 4.9%) and Star Entertainment Group (up 4.9%).

However, in what has proved to be a very frustrating month for the Trust, some of our largest overweight holdings have been unduly harshly treated on the back of what were solid profit results. For example, Crown Resorts (down 8.8%) was sold off on the back of the slowdown in the high-roller market and some softness in their Perth casino due to the weak WA economy. Both of these issues were well known to the market and will likely prove transient. Suncorp (down 6.0%) and AMP (down 2.7%) also delivered reasonable results, with earnings per share both up 5.0%. However, both were sold off after flagging higher investment into their businesses. As discussed above, we do not view this as a negative. The Trust was also impacted by our holding in Vocus Group (down 33.8%), which fell after it ended discussions with private equity firms. We think there is considerable value in this business, however patience will be required.

Trust Activity

During the month, we increased our position in a number stocks offering good value and attractive dividend yield potential, including Tabcorp and Rio Tinto. At month end, stock numbers were 25 and cash was 3.7%.

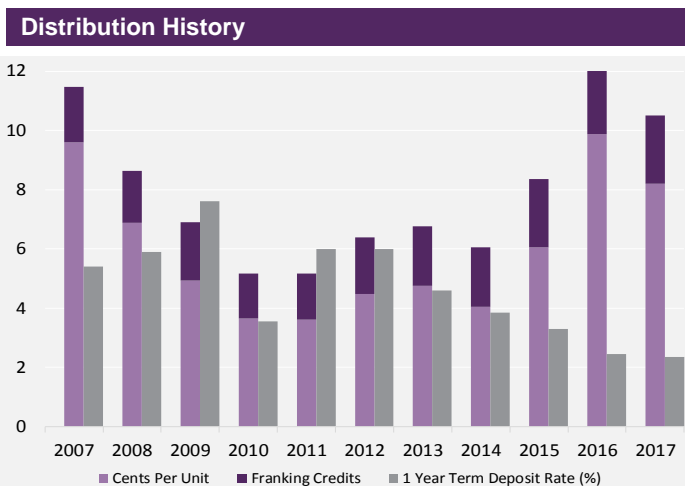
Outlook

The Trust continues to offer a higher forecast gross yield than the overall market and, as always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	8.9	8.5
BHP Billiton Limited	8.8	5.7
Westpac Banking Corporation	6.3	6.9
Rio Tinto Limited	5.3	1.9
ANZ Banking Grp Limited	4.8	5.6
Suncorp Group Limited	4.5	1.1
AMP Limited	4.5	1.0
National Australia Bank	4.4	5.2
Woodside Petroleum	4.4	1.3
Caltex Australia	4.3	0.6

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	8.7	4.3
Materials	19.3	17.3
Industrials	0.0	7.5
Consumer Discretionary	10.3	5.1
Consumer Staples	4.0	7.4
Health Care	0.0	6.9
Financials-x-Real Estate	44.9	36.3
Real Estate	3.6	8.3
Information Technology	0.0	1.5
Telecommunication Services	5.6	3.2
Utilities	0.0	2.2
Cash & Other	3.7	-

Rounding accounts for small +/- from 100%.



Distribution shown for full financial years only. Does not take into consideration your personal tax situation. 1 Year Term Deposit Rate sourced from RBA as at last day of previous financial year. Past performance is not a reliable indicator of future performance.

Signatory of:



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